



Public Service Commission of Wisconsin

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Public Service Commission of Wisconsin
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December 15, 2022

Mr. Travis Signer
Gratiot Municipal Water Utility
P.O. Box 189
Gratiot, WI 53541

Re: Application of the Village of Gratiot, Lafayette County, as a Water Public Utility, for Authority to Adjust Water Rates 2340-WR-101

Dear Mr. Signer:

Public Service Commission (Commission) staff has analyzed Gratiot Municipal Water Utility's (Utility) application for a water rate increase received on July 20, 2022. Commission staff's revenue requirement exhibit (Exhibit) was issued on November 2, 2022. ([PSC REF#: 451090.](#)) The Utility responded to the Exhibit on November 6, 2022. ([PSC REF#: 451805.](#)) The Utility requested that Commission staff reconsider the 3.25 percent rate of return (ROR) that the Utility originally requested in its application. The benchmark ROR at the time Commission staff completed the revenue requirement was 6.30. Currently, the benchmark ROR is 6.60 percent. The Commission calculates the benchmark ROR weekly based on a three-month rolling average of municipal bond rates and determines a floor annually.

According to Wis. Stat. § 66.0811(1), municipal utilities are entitled to the same rate of return as is permitted for privately owned utilities. The purpose of return on rate base is to provide interest on debt capital and a return on municipal capital, which may be paid out or used internally to finance construction projects. Commission staff typically recommends the benchmark ROR for utilities during a rate case. The authorized ROR should be sufficient to maintain the credit of the utility and to maintain confidence in the utility's financial integrity. A reasonable return should consider current market conditions and provide adequate interest coverage, the ability to attract and hold capital, and internal cash generation for financing projects and growth in equity earnings. A reasonable ROR should balance the needs of investors for reasonable earnings on their investment and the needs of consumers to pay rates that are fair, reasonable, and not excessive.

Commission staff understands the Utility's desire to mitigate the rate increase with a lower rate of return. However, the Utility has not applied for a conventional rate case since 1996. The length of time between rate cases has contributed significantly to the proposed rate increase. The lower ROR requested by the Utility would reduce the overall increase in this rate case by 20 percent; however, in the long term, the Utility could experience decreased cash flow that could restrict future capital investment or the ability to cover unexpected or increased maintenance

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expenses. Therefore, Commission staff continues to recommend the benchmark ROR of 6.30 percent proposed in Ex.-PSC-Revenue Requirement. ([PSC REF#: 451090.](#))

If the Utility prefers to continue with its request for a lower ROR, the Utility should state this in a response provided to the Commission within five days of receipt of this letter. In that event, the Commission will make its decisions on this docket through a disputed process, and in the meantime, Commission staff will contact the Utility regarding a potential a pre-hearing conference.

If you have any questions regarding the above, please contact Troy Gazza at (608) 266-7173 or by e-mail at Troy.Gazza@wisconsin.gov. If you have any questions regarding the status of your rate case, please contact Alex Hanna at (608) 267-2336 or by e-mail at Alex.Hanna@wisconsin.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. P. Galvin', with a long horizontal line extending from the end.

Andrew P. Galvin
Bureau Director
Division of Water Utility Regulation and Analysis

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